BUSINESS OPPORTUNITIES CREATED BY THE INTERNET: A STUDY OF INTERNET ENTREPRENEURS IN EGYPT

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Overview

- Introduction
- Drivers
- Possibility of venture capital funds
- Internet activities and business models
- Research methodology
- Findings
- Conclusion
Internet & eBusiness

- Disrupted well-established industries
- Caused obsolescence of certain old industries
- Created new business models
- Has a significant contribution to the economic development
- Created a new environment for entrepreneurs to start their business
Internet Entrepreneurs

- Improve information sharing in the economy
- Guide markets towards stability
- There exists a relationship between entrepreneurship rates and eBusiness activities in a country
- It is important to provide a healthy entrepreneurial environment to boost eBusiness activity
Internet Threat for Entrepreneurs

- High % of failure – risky environment
- Early movers from developed countries
- Increasing competition for local firms not only globally but in local markets

Solution …

Develop business models relevant to the local environment
Drivers of Entrepreneurs

- Desire of self-employment and of founding new businesses
  - Personal characteristics
  - Supporting environment
- Economic growth
- Demographic and cultural traits
- Government policy
- Powerful economic and legal institutions
- Political stability
Drivers of Internet Entrepreneurs

- eReadiness
  - Existence and cost of ICT infrastructure
  - Human capital
  - Logistics/fulfillment infrastructure

No evidence that e-business activities could be affected negatively by deficiency in institutional factors (i.e., country risk, economic freedom, and transparency) or payment infrastructure
Possibilities of Venture Capital Funds

- A private equity capital typically provided by professional investors to new growing businesses
- **High risk/high return** mean of financing - a feasible approach supporting entrepreneurs to implement their innovative ideas on the ground

- Entrepreneurs
  - Rarely possess the necessary fund to start their business
  - Usually unable to secure a loan from public markets or investment banks

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Possibilities of Venture Capital Funds

- Venture capitalists fill a niche between an entrepreneur's ability to self-finance and a point at which banks and public markets would be able and willing to provide financing

- Cost underlying an Internet business
  - Supplies and distribution systems
  - Marketing
Possibilities of Venture Capital Funds

- Growing interest among venture capitalists to fund Internet business projects
  - to catch the first wave in a country
  - not to lag behind in such business
- Usually willing to invest in exchange of equity in these new ventures
- Venture capitalists prefer cooperating with local startup companies to:
  - Reduce cost of their engagement
  - Rely on their personal networks
  - Monitor & provide support
- Regional distribution of venture capital investing has an effect and can even predict the place of new Internet startups
Internet Value-Added activities

- **Search** (collecting information and determining purchasing alternatives)
- **Evaluation** (comparing the cost and qualifications of different alternatives)
- **Problem-solving** (identify problems or needs and suggesting means to deal with them)
- **Transactions** (committing a sale including several steps underlying such as, contract’s negotiation and agreement, payment, and delivery.)
Internet Business Models

- Value-added activities are implemented in 7 successful business models:
  - Commission
  - Advertising
  - Mark-up
  - Production
  - Referral
  - Subscription
  - Fee-for-service
Six entrepreneurs who founded the websites:

- **Bey2ollak** (i.e., *he is telling you*)
- **Books.com.eg**
- **Dare’n’Deal**
- **Edfa3ly** (i.e., *pay on my behalf*)
- **Nefsak** (i.e., *your desire*)
- **Offerna** (i.e., *our offer*)
“I don’t leave the house before checking bey2ollak to decide which route to take or even to stay at home for a while until Bey2ollak posts declare that the traffic is smoother”

“Before going out during the weekend or before buying something, my family check group buying websites seeking better deals from Dare’n’Deal, Offerna, Cobonatak, GoNabet, etc.”

“When I need something badly from US websites such as Amazon, I use Edfa3ly to know the exact amount to be paid without worrying about any surprises concerning unknown custom fees”.

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Main Findings & Discussion

- Launched recently
- Founders are highly educated
- Perceived an opportunity in the society
- Drivers: personal characteristics, environment, and level of education
- Start-up capital: self-funded
- Egyptian venture capital organizations approached them at a later stage:
  - Orascom Telecom Ventures (OTV) bought 51% of Dare’n’Deal shares for L.E. 11 million in January 2012
  - Ideavelopers invested L.E. 10 million in Nefsak in June 2011
Main Findings & Discussion

- Most Egyptian investing organizations are still reluctant to fund starting Internet initiatives - eCommerce is not yet a well-established business in Egypt

- Importance of geographic proximity (all investors in these projects are Egyptian venture capital organizations)
Main Findings & Discussion

- Value-added activities
  - Search
  - Evaluation
  - Problem solving
  - Transactions

- Business models
  - Advertising
  - Commission from sales
Main Findings & Discussion

- **Value-added for customers**
  - A product they need with a lower price and in a convenient way
  - Services to solve frequent problems

- **Success metrics:**
  - Increasing number of transactions, deals, traffic or membership
  - High revenues “exceeding expectations by far”
  - Building reputation and branding challenging international websites
  - Growing interest of venture capital organizations to collaborate with these new businesses
  - Attention directed to these entrepreneurs by the Egyptian and regional media, educational institutions, government and non-government institutions, etc.
Main Findings & Discussion

- **Most effective marketing channels**
  - Internet marketing (Google, Facebook)
  - Viral marketing (word of mouth)

- **Challenges**
  - Lack of trust in online payment
  - Few credit card holders
  - High marketing costs
  - Acquire the required funds
  - Culture of both sellers and buyers in case of intermediaries
  - Finding talented employees with affordable salaries
  - Keeping a continuous and fast learning pattern
Main Findings & Discussion

- Future expectations about eCommerce in Egypt
  - “Growing 20% each year”
  - “The very near future especially in the high overhead costs of traditional business”

- Impact of the revolution on the business
  - Went through a down trend when the government cut the Internet for 5 days during the revolution
  - Revamped their positions immediately afterwards
  - Had a positive effect on their business

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Conclusion

- Even though entrepreneurs in developing countries were not among the first wave of e-business, they are trying to catch up.
- Entrepreneurs in developing countries can face the fierce competition in the global electronic market by creating unusual and innovative ideas that target local preferences, or sometimes adopt existing successful business models and cater them to meet local context’s requirements. The key concept is ‘the idea’ or the ‘business model’.
- Institutional deficiency and economic instability after the revolution did not have a negative impact.
Thank you